

Banks to Withhold Interest Of Depositors Who Owe IRS

By DAVID LAWRENCE

WASHINGTON — The nation's financial institutions will soon be playing tax collector for the federal government.

The Internal Revenue Service said last week it will require banks, corporations, and other institutions to withhold 20% from payments to depositors or investors who failed to pay the required taxes on interest and dividends in 1984 and 1985.

Banks were notified of the requirement, a provision of the Income Dividend and Compliance Act, in May.

"It's not going to make the savings institutions or the banks real popular," said Joan Pinkerton, speaking for the U.S. League of Savings Institutions.

Congress passed the Income Dividend and Compliance Act as a replacement for the Tax Equity and Fiscal Reform Act of 1982. Congress repealed the latter act before it went into effect after a massive protest organized by the banking industry. The repealed act had required banks to withhold 10% of interest and dividends for all depositors except senior citizens and those with low incomes.

The revised act applies to taxpayers who failed to report their interest and dividends or who failed to disclose

their Social Security numbers to their financial institutions.

The order will affect some 150,000 savers and stockholders. At least four warnings have been sent to the delinquent taxpayers, the IRS said.

Banks will have to alter their computer software in order to comply with the act, said Fritz Elmendorf, director of communications for the Consumer Bankers Association.

"The problem is in designing or modifying software to nick out the 20% interest to forward to the IRS," he said.

"Even though it will be a small minority of customers, it will require a substantial modification in software," Mr. Elmendorf said.

"The cost of administering these things are not cheap," said James Christian, chief economist at the U.S. League. "It's unpleasant, you get to play the bad guy — but it's the law."

Mr. Lawrence writes for the Medill News Service.

Corrections

In the listings of world's largest banks, published July 30 and July 31, the wrong exchange rate was used to calculate the dollar-denominated deposits and assets of Hokkaido Takushoku Bank Ltd., Sapporo, Japan. As a result, the bank's dollar-denominated deposits and assets were understated.

As of Sept. 30, 1986, the bank had total deposits of \$41,438,375,242 and total assets of \$51,297,236,298, making it the world's 64th largest bank in deposits and the 65th largest bank in assets. In addition, among banks, bank holding companies, and savings banks, it ranks as the world's 71st largest banking firm in assets.

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A story in the Aug. 6 *American Banker* ("US Regulations on Securities Need Revision," p. 2) quoted Rep. Jim Cooper, D-Tenn., as saying during a congressional hearing that Sumitomo Trust and Banking Co. was given acquisition rights not afforded to domestic banking firms when it was allowed to acquire a 12.5% interest in Goldman, Sachs & Co. The story failed to report that Mr. Cooper later reversed himself and acknowledged that domestic banking firms also were permitted to make a similar investment.

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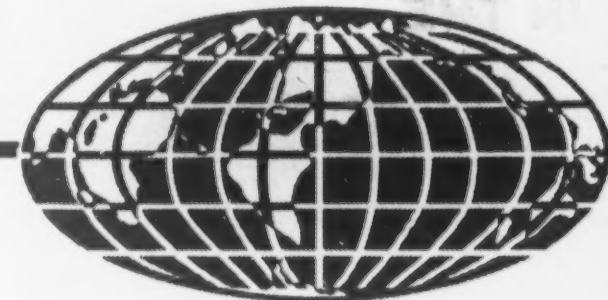
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INTERNATIONAL BRIEFING



Peru's Move Toward Nationalization Of Banks Makes Foreigners Wary

LIMA — Peru's move to take over locally owned banks and other private financial institutions has reinforced the already deep skepticism of foreign bankers toward the government of President Alan Garcia.

In a major policy address on July 28, Mr. Garcia announced his intention to nationalize 10 private banks, 6 finance companies, and 17 insurance firms.

Pending the Peruvian Congress' approval of a takeover law, the institutions had been formally put under state control, with government-appointed committees replacing boards of directors. The intervention order was rescinded following a court challenge, but Peru's populist president vowed to press ahead.

Saying he wanted to break the grip of a small financial elite, Mr. Garcia argued in his speech that banks under state control could lend more money to the rural poor.

The government's main objective is the country's largest bank, Banco de Credito del Peru. With 25.7% of commercial bank deposits, Banco de Credito is almost three times the size of its nearest private competitor.

Foreign branch banks were exempted from the intervention decree, and out-of-country bankers believe their operations are secure for the time being.

Nevertheless, some foreign bankers are so negative about doing business in Peru that they jokingly say it's a shame the government isn't taking them over.

Citibank, Bank of America, Lloyds Bank of London, the Bank of Tokyo, and Banco Central de Madrid have branches in Lima. Chase Manhattan sold off its Peru branch earlier this year. Banco Exterior de Espana runs the commercial bank Extabandes — the only private bank not taken over — as an offshore operation.

President Garcia Reassures Foreign Banks

In remarks to foreign reporters, the 38-year-old Mr. Garcia characterized foreign banks as very important.

Government officials "are smart enough to realize that they gain nothing by touching us," said one foreign banker.

Nevertheless, foreign bankers are unnerved by the text of proposed nationalization law that declares banking, finance, and insurance "of social interest... the exercise of which is reserved for the state."

Mr. Garcia's announcement stunned rumor-prone Peru. Nonbanking business groups, which have maintained reasonably good relations with the administration, joined local bankers and middle-class political parties in expressions of outrage.

The Peruvian chief executive promised to "democratize" credit, using vintage populist rhetoric to explain his decision. Bank owners, he said, are part of "financial circuits... that are the backbone of economic power and inequality."

Mr. Garcia's left-of-center Apra party has a two-person majority in the Senate, but some ruling-party members have expressed doubts about the nationalization plan. Analysts say the bill could get watered down, or it could be strengthened if the ruling party enters into talks with the more radical left.

Commentators here generally agree that Mr. Garcia's motives are more political than economic. The state already owns the second, third, and fourth largest commercial banks, and controls about half of bank deposits. When state development banks are considered, the government directly manages 75% to 80% of credit in the financial system.

What many find worrisome is that the government apparently lacks a concrete idea of what to do with the banking system once it assumes full control. "There is no plan," said one Lima banker.

Officials have spoken vaguely of "rationalization" of the system — meaning mergers and consolidations — but have been unable to provide details when pressed. Nor have they offered anything except generalities on how they intend to allocate credit.

Meanwhile, the nationalization proposal is undergoing revision as the government considers less than full state ownership of some smaller banks.

Even before the latest move, foreign banks were reevaluating their local operations. "Over the last year, during our budget reviews, 30% of our time has been spent considering whether to leave Peru," said one banker.

Foreign bankers say they are not permitted to compete on an equal footing with locals. For example, foreign branches may not offer savings accounts.

Complaints About Forced Dollar Lending

Their most bitter complaint concerns forced dollar lending to the Peruvian government. Especially onerous is a compulsory credit line equal to the growth of deposits over a 1970 base. For every increase in local currency deposits, foreign banks must lend the government an equivalent sum in dollars.

As a result, American, British, and Japanese banks are scaling back their operations in Peru.

Citibank has reduced its staff from 170 to 120, and cut deposits and lending by more than 50%. The bank lost close to \$1 million in Peru last year.

Bank of America cut its work force from about 80 to 60. The Bank of Tokyo has not replaced a general manager wounded in a terrorist attack earlier this year. In recent weeks, the Bank of London halted an aggressive consumer advertising campaign.

And, though Chase officially described its departure as part of a worldwide retrenchment, compulsory lending reportedly was a major factor in the decision.

To keep deposits from growing, which would force loans to the government, foreign branches find themselves in the bizarre position of refusing to take money from customers who are nervous about keeping their funds in banks targeted for nationalization.

There may be a silver lining for foreign banks, however. Private banks are losing credit lines as overseas lenders balk at providing money to institutions that will belong to the Peruvian government. Importers may thus be forced to go to foreign banks for credit. Said one foreign banker: "The irony is that all this might increase the trade financing business of foreign branches."

— Sam Zuckerman